REPORT OF ACCOMPLISHMENTS
1995 – 1998
"PROTECTING CALIFORNIA'S CONSUMERS"

SIGNIFICANT AUTO INSURANCE REFORMS

In 1995 California was one of the most expensive auto insurance markets in the nation. Since then, CDI has helped pass major new legislation and embarked on new initiatives that have resulted in the most dramatic auto insurance rate cuts in California history.

Implementation of Proposition 103

Perhaps one of the most challenging and momentous accomplishments was implementing Proposition 103. Although the voters approved Proposition 103 in 1988, by 1995 it still had yet to be fully implemented. This proposition required major changes in California insurance law:

- *First*, it required an automobile insurance rate rollback.
- *Second*, it required that policyholders receive premium refunds based on the rollbacks.
- *Third*, it required insurers to reformulate rates to be based primarily on a driver's safety record, miles driven and driving experience.
- *Fourth*, it required CDI to provide consumers with comparative information on auto insurance rates.

Rate Rollbacks and Premium Refunds

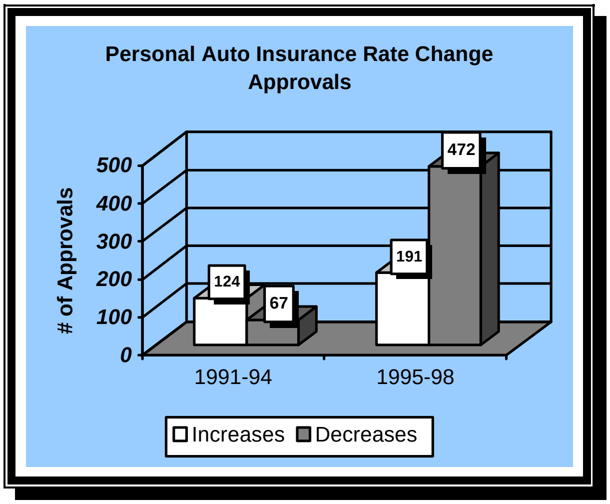
Proposition 103 required insurance companies conducting business in California during 1988 to rollback their rates and pay rebates to consumers based on the difference between their current rates and rollback rates. Not surprisingly, insurers fought rebates and rollbacks vigorously.

In 1995, there were 169 unresolved rate rollback cases, mostly comprised of insurers refusing to rollback their rates. CDI repeatedly fought in the courts to settle these cases and obtain rollbacks and rebates for consumers. In two particularly significant court cases, the Department defended Proposition 103's mandated rollbacks and rebates to consumers. In *Amwest v. Wilson*, the California Supreme Court agreed with the Department's argument that surety companies are not exempt from Proposition 103 regulations and that they are to be governed by the same rate rollback provisions.

In 1995, CDI successfully obtained $9.8 million from the California State Legislature to prosecute insurers failing to pay their rebates. By the end of 1998, 157 rollback cases out of 169 had been successfully resolved.

CDI's aggressive efforts to implement Proposition 103 resulted in the approval of **472 rate decreases** between 1995-98 totaling $306 million in auto insurance premium savings for consumers in 1998 alone. Combined with the $466 million in premium rebates, California's consumers saved a total of $772 million. CDI's efforts to encourage lower insurance rates, and keeping them low, has paid off in consistently lower premiums for drivers. As *Exhibit 3* illustrates, the number of auto rate decreases approved by CDI was only 67 between 1991 and 1994, in contrast to the 472 rate decreases approved between 1995 and 1998.

Exhibit 3: Personal Automobile Liability Insurance Rate Changes

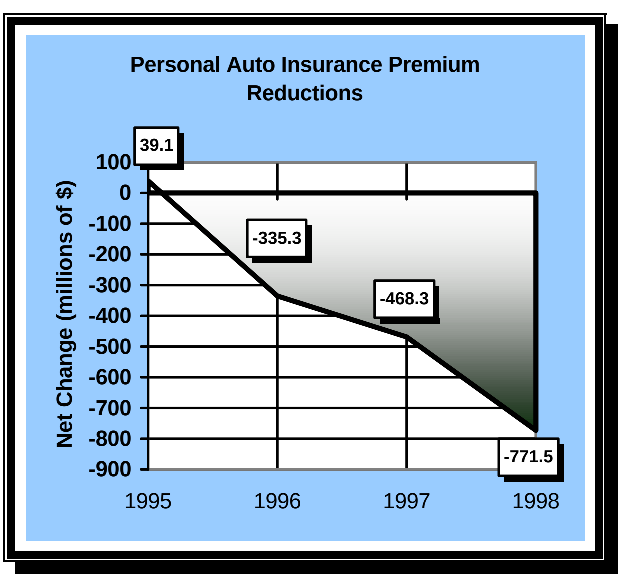


Source:Department of Insurance, Rate Regulation Branch, February 19, 1999.

CDI's Rate Regulation Division began tracking and verifying the impact of premiums under Proposition 103 regulations in early 1995 and found that the net savings to California's auto insurance consumers was approximately $1.5 billion between 1995 and 1998, as illustrated in *Exhibit 4*.

During the period from 1995 to 1998 auto insurance rates decreased significantly for California drivers. In fact, in 1998 the *Los Angeles Times* described the market as being in an "auto insurance price war, which has already seen rates fall by an average of 5.5% in the last three years." In fact, rates dropped in some urban areas by as much as 17%. These rate reductions were a major component of the $772 million savings in premiums.

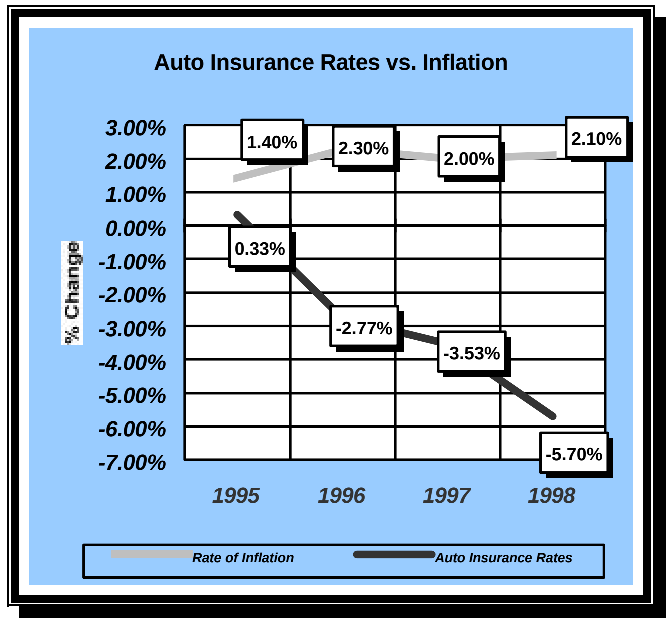
Exhibit 4: Personal Automobile Insurance Premium Reductions



Source: CDI Rate Regulation Branch, February 19, 1999.
Note:Premium impact information is not available for years 1991-1994.

A comparison of auto insurance rates in California against the rate of inflation is another indicator of how much auto insurance rates in California have declined since 1995. As illustrated in *Exhibit 5*, auto insurance rates in California have steadily decreased since 1996 while inflation has increased at an annual average rate of nearly 2%. This data reflects real cost savings for California's drivers. As rates fell, many insurance companies advertised their rate reductions to attract new customers.

Exhibit 5:Automobile Insurance Rates Compared with Inflation, 95-98



Source: CDI Rate Regulation Branch, March 1999.
Note: 1998 figures are estimates as 1998 premium data.

Observers have noted the tangible effects of the Department's aggressive implementation of Proposition 103 rate rollbacks. A spokeswoman from the *Proposition 103 Enforcement Project*, an issue advocacy group, stated in a *Los Angeles Times* article that consumers have "probably benefited overall." The benefits of CDI's regulatory approach have changed the dynamics of the auto insurance market over the last four years as noted by these commentators:

> *"Every major California insurer has cut its rates in the last year as new competitors enter the market."*
>
> **– *Los Angeles Times***, July 7, 1998[1]

[1] *Los Angeles Times*, July 7, 1998

> *"Auto insurance rates—which have a high profile in car-happy California—have dipped 5.5 percent since [Quackenbush] took office."*
>
> – ***San Jose Mercury News***, May 27, 1998[2]

> *"California's auto insurance business has become increasingly competitive, with companies cutting rates and improving services."*
>
> – ***Los Angeles Times***, July 19, 1998[3]

CDI has demonstrated that a regulator focused on encouraging effective market competition can be a catalyst for rate reductions.

Driver Safety Record

Proposition 103 mandates that a person's Driving Safety Record (DSR), i.e. the number of points on a driver's record, be one of the primary factors in determining a driver's insurance rate. Implementing this requirement was difficult, requiring a significant change in the rating practices used by insurance companies.

CDI announced in October 1997 that the Department was implementing new permanent regulations that would deemphasize zip codes as a factor in setting auto insurance premiums. The new rating formula requires insurance companies to appropriately weight a person's driving record, annual mileage driven and years of driving experience as principal criteria. CDI's new regulations also ensure that the state's lesser-populated areas are not subsidizing the more populated urban areas of California.

As a result, auto insurance companies in California now pay more attention to tickets and at-fault accidents when insuring drivers, complying with the letter and spirit of Proposition 103. The more DSR points drivers have on their records, the greater the chance their insurance rates will increase. Furthermore, recently adopted regulations allow for policies to be canceled or non-renewed if a driver gets three points or one major two-point violation, like a DUI, on their driving record within a 36-month period. This assures good drivers that they are not subsidizing other more accident-prone or careless drivers.

The core of Proposition 103 in regard to auto insurance is that it entitles insured drivers in California who have at least three years of driving experience (18 months of which must be in the U.S.) and no more than one point on their driving record to an insurance rate 20% lower than rates for drivers with two or more points.

[2] *San Jose Mercury News*, May 27, 1998
[3] *Los Angeles Times*, July 10, 1998

Automated Rate Comparison System

As of November 1994, CDI still had not addressed Proposition 103's requirement that CDI provide a comparison of the rate in effect for each personal line of insurance for every insurer. In fact, two previous insurance commissioners did not make such an automated rate comparison system available. In September 1998, nearly 10 years after Proposition 103's passage, CDI completed the implementation of this system and unveiled it to the public.

Today, California consumers can access comprehensive data on rates being offered by all companies providing auto and homeowner insurance in the state.[4] Armed with this information, consumers can be more informed about their insurance provider selection. Because consumers have open access to this convenient source of comparative rate data, insurers also have an incentive to keep their rates as competitive as possible.

Legislative Initiatives

CDI has worked diligently to save money for California's drivers by helping to enact key legislation, protect good, law-abiding drivers, and create new, tougher sentences on scam artists that commit staged auto collisions. In addition, Insurance Commissioner Chuck Quackenbush also sponsored a voter initiative to prevent drunk drivers and uninsured drivers from collecting pain and suffering damages after an auto accident.

AB 650 (Chapter 1126/Sept. 1996)– Proof of Auto Insurance

CDI was one of the early supporters of AB 650 (Chapter 1126/Sept. 1996). This legislation requires drivers to show proof of insurance when renewing annual auto registrations with the Department of Motor Vehicles. Upon renewal of a vehicle registration, a driver must show proof of insurance or other compliance with the financial responsibility laws. Also, a driver must provide proof of insurance or financial responsibility to a peace officer at a traffic accident or if the driver is cited for a violation of the Vehicle Code.

Prior to this law, responsible, insured motorists were, in effect, subsidizing uninsured motorists by having to pay higher premiums that factored in the relatively high risk that they would be struck by an uninsured driver. By making insurance coverage mandatory for all vehicle owners, AB 650 was publicly acknowledged as a benefit to conscientious and responsible drivers and is one of the factors that has led to more insured drivers in California.

[4] The Automated Rate Comparison System can be accessed at the California Department of Insurance's web site: *www.insurance.ca.gov*.

> *"The drop [in the number of uninsured drivers] has meant a boon to drivers: Car insurance rates have dipped 5.5 percent while rates nationally are rising."*[5]
>
> **– *Los Angeles Daily News***

CDI's work in support of AB 650 has helped broaden the ranks of insured motorists, a key step toward an insurance system that is more fair and affordable for all drivers.

SB 334 (Chapter 189/July 1998)– Fraudulent Auto Accidents

There are many forms of insurance fraud, but CDI places particular emphasis on an especially treacherous kind of auto fraud – staged auto collisions. Criminals who intentionally victimize innocent and unwitting motorists for the purpose of collecting insurance proceeds commit staged auto collisions.

To stage an accident, criminals swerve, or stop suddenly, in front of innocent drivers often causing a relatively minor collision, then demand money for their "injuries." Corrupt attorneys and doctors are often participants in organized fraud rings and act as collaborators in the crime by preparing fabricated and inflated injury reports.

One auto accident fraud scheme in Orange County involved 66 separate accidents or stolen vehicles, cost consumers in excess of $1 million in fraudulent auto insurance claims, and involved 24 insurance companies. It took two years of investigation by CDI and local law enforcement to break this crime ring and bring 86 suspects to arrest. This type of insurance fraud is becoming more frequent and it increases the price of auto insurance for all insured drivers, but more importantly it risks the lives of innocent drivers, as was the case with the staged collision that took the lives of a young Long Beach family.

SB 334 (Chapter 189/July 1998) was passed in 1998 to make staging an auto collision, for the purpose of fraudulently collecting insurance proceeds, a "serious felony" and subjects the suspect, if convicted, to the California "three strikes" law. Before SB 334 (Chapter 189/July 1998), a perpetrator of a staged auto collision faced a maximum two-year sentence and a $50,000 fine.

There is much more that needs to be done to stop staged auto collisions. As new legislation, such as SB 334 (Chapter 189/July 1998), is enacted to deter and punish criminals committing fraud, the sober task of protecting the innocent will continue. CDI places no higher premium on any of its responsibilities than protecting and defending consumers from abuse and fraud.

[5] *Los Angeles Daily News*, August 4, 1998.

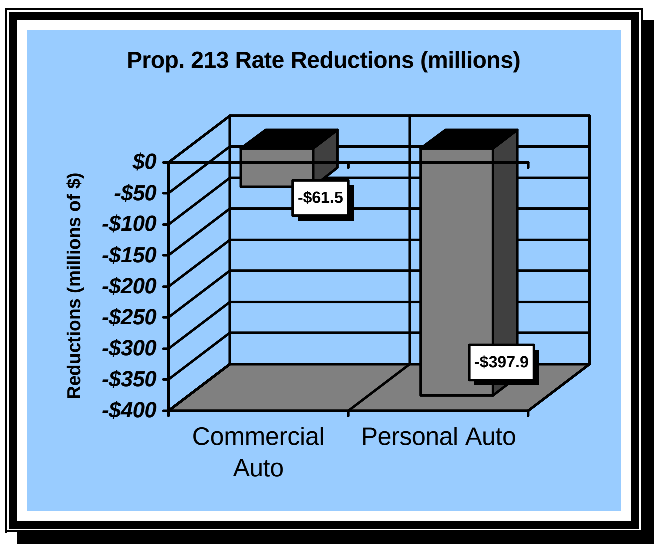
Proposition 213 – The Personal Responsibility Act

In 1996, Commissioner Chuck Quackenbush authored and sponsored Proposition 213, the *Personal Responsibility Act.* This initiative prevents uninsured motorists and drunk drivers from collecting pain and suffering damages after an auto accident. It also bars compensation for any loss incurred by felons who were involved in automobile accidents while committing or fleeing from a crime. The proposition was approved by 77% of the voters—the highest percentage received by a ballot measure in over 60 years.[6] Since the passage of the Proposition 213, other states, such as Hawaii and New Jersey are adopting similar versions of the initiative's "no pay, no play" policy provisions.

Since Proposition 213 dramatically reduced liability exposure, CDI required California's automobile insurers to submit rate reduction filings reflecting anticipated savings. In total, CDI received 572 filings, representing a 9.49% decline in automobile liability coverage rates and resulting in savings amounting to nearly $460 million. *Exhibit 6* summarizes the generated savings of these rate reductions for California's drivers.

The period of 1995 to 1998 can only be characterized as phenomenal. The savings generated by the reduction of liability exposure from Proposition 213, combined with the rebate and rollback savings from Proposition 103, means that **California's consumers have saved over $1.5 billion** in auto insurance premium reductions during the last four years.

Exhibit 6:Insurance Rate Reductions from Proposition 213



Source: Proposition 213 Summary Report, CDI Regulation Branch.

[6] California Department of Insurance, speech before the Conference on Insurance Regulation: *California: the Insurance Forefront*, July 9, 1998.

Innovative Automobile "Mini-Policy"

California law now requires drivers to be financially responsible and protect other persons for any damage that they may cause. However, an estimated 22% of California motorists presently drive without auto insurance. Affordability is often an issue for many low-to-moderate income drivers who may not be able to afford the cost of standard conventional automobile insurance coverage. In 1998, CDI developed an innovative new type of auto insurance policy, called the "Auto Mini Policy" as a low-cost alternative to standard conventional auto insurance.

A standard auto insurance policy provides features or coverage that may not be needed by all drivers. The "mini policy" provides an alternative by scaling the standard policy down to a few core essential elements of coverage, thus creating a minimum policy, or "mini policy," without all the features and coverage typically included in a standard policy.

The "mini policy" contains the following requirements:

> ***First***, the "mini policy" provides consumers with a reasonable insurance premium in exchange for a consumer's assurance not to engage in risky behavior, such as drinking and driving. Failure to adhere to these pledges would result in higher out-of-pocket costs in the form of a higher deductible, but still provide adequate protection for other drivers.
>
> ***Second***, the "mini policy" would not cover "permissive drivers" (i.e. drivers permitted to drive the insured's vehicle, although not expressly named in the policy). Currently, there is a requirement in law that all auto insurance policies must cover permissive users; consequently premiums for all drivers are higher. Using a "mini policy" that does not cover permissive users will reduce the cost of liability premiums while still ensuring that people have insurance to get to and from work and take care of day-to-day errands, such as grocery shopping. At their option, consumers would be able to add on a permissive-user endorsement for an extra premium, if they wanted or needed this coverage.

Providing a low-cost choice for consumers would provide an important option for cost-conscious insureds. And, offering alternatives to the standard policy may eventually lead to lower premiums for all drivers.

This initiative dovetails with many of CDI's goals, namely to serve low to moderate-income communities and to further encourage reduced-cost automobile insurance. If implemented, CDI estimates that drivers with an auto "mini policy" would enjoy premium savings of up to 15% as compared to those with a standard policy.

All the provisions required of a standard automobile liability policy, with their resulting costs, may not meet the needs of all persons, particularly those who rely on their car to get to and from work. Removing the requirement for coverage of permissive drivers would result in a lower cost policy and make insurance more affordable to those who currently do not purchase coverage because of cost considerations.